

KIAWAH RIVER UTILITY COMPANY

DOCKET NO. 2018-102-S

Testimony of Kevin O'Neill

Before the South Carolina Public Service Commission

Testimony Prepared: September 10, 2019

Hearing Date: November 12, 2019

**Q. Please state your name.**

A. Kevin O'Neill.

**Q. By whom are you employed?**

A. The Beach Company, which is the manager of Beach O'Hear Pointe, LLC, a 50% partner in Kiawah River Investment, LLC, ("KRI") which is the developer of Kiawah River.

**Q. What is Kiawah River?**

A. Kiawah River is a large planned residential community with some mixed use that KRI owns and is developing on Johns Island in the unincorporated portion of Charleston County. The property is approximately 1427.81 acres, including 1083.2 acres of highland, 187.41 acres of freshwater wetland, and 157.2 acres of OCRM critical area. Its southern boundary is the Kiawah River. On the opposite side of the Kiawah River is Kiawah Island. KRI and Kiawah River are entirely unrelated to the ownership and development of Kiawah Island.

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2 **Q. How long have you been involved with Kiawah River?**

3 A. I became involved well over ten years ago when we negotiated a Development  
4 Agreement with Charleston County. At the same time we negotiated the zoning of  
5 a planned development district, or PD, that was also approved by Charleston  
6 County in 2009 along with the Development Agreement.

7

8 **Q. Was there any development on the Kiawah River property at the time the**  
9 **County approved the Development Agreement and PD zoning in 2009?**

10 A. No. The property had been a farm for decades until it was acquired from the  
11 Limehouse family in the early 1990s. After it was purchased, the property was  
12 still used for agriculture, and trees were planted throughout the property in  
13 anticipation of its later development.

14

15 **Q. Did the development of the property begin after County Council approved**  
16 **the Development Agreement and PD zoning in 2009?**

17 A. No, for various reasons including the economic recession, we did not begin the  
18 actual development of the property until two or three years ago.

19

20 **Q. What is the development that is planned on Kiawah River?**

21 A. Kiawah River will be blended into the native landscape and will feature  
22 significant open space. There will be an area near the Kiawah River known as the  
23 River Village that will be a mixed use traditional neighborhood development that

1 includes a hotel and some commercial and retail uses. There will also be a second  
2 portion of the project called the Rural Residential that will be predominantly  
3 residential. Finally, there will be a corridor of some limited development known  
4 as Bohicket Station that will be inside the property's entrance on Bohicket Road.  
5 All told, we are entitled to develop up to 1,285 dwelling units, 80,000 square feet  
6 of retail and commercial space, and 450 guest rooms. These guest rooms can be  
7 within the two allowed hotels or inns or be residential villas on other parcels that  
8 are not physically attached to hotel or inn. We are also in the process of seeking  
9 permission to add retirement housing units.  
10

11 **Q. Is there a public potable water company that serves Johns Island?**

12 A. Yes, St. Johns Water Company, and it will provide potable water to Kiawah River.  
13

14 **Q. Is there available public sewer for Kiawah River?**  
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16 A. No, there is no available public sewer that provides service to any location that is  
17 close enough to serve Kiawah River. Seabrook Island Utility serves the far  
18 western end near Seabrook Island. Charleston Water Systems serves some  
19 portions of the northern and eastern side of Johns Island, closer to the City of  
20 Charleston.  
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22 **Q. What did the developer decide to do to provide sewer service to the**  
23 **development?**

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A. The only choice in the end was to construct a wastewater treatment plant and related facilities that would serve Kiawah River exclusively. We have no desire or intent to serve any area outside of Kiawah River. In fact, we have committed to the local governmental entities, including the Charleston County, that we will not do so.

**Q. Has the developer proceeded with the design and construction of the wastewater treatment plant?**

A. Yes, the developer has spent over \$8.5 million dollars in design, permitting, and construction of the wastewater treatment plant. KRI has also put in the water and sewer mains for the primary access to the River Village known as the spine road. In addition, the water and sewer infrastructure for Phase 1 of the development has been constructed.

**Q. Who were the project engineers for the wastewater treatment plant and all the related facilities including those that will serve the development.**

A. The Mount Pleasant office of Thomas & Hutton Engineering. The project manager is Lindy Cummins. Mark Yodice of their firm has also been heavily involved.

1 **Q. Has DHEC inspected and approved the construction of the wastewater**  
2 **treatment plant and other related infrastructure?**

3  
4 A. Yes, DHEC has signed off on all of the construction. The only exception deals  
5 with the wastewater treatment plant. The plant will not operate effectively unless  
6 there is an average daily flow of at least 4000 gallons. At this point, because there  
7 is so little completed development, there is insufficient daily flow. As a result  
8 DHEC has approved the use of an alternative method that involves the temporary  
9 storage of the wastewater in an existing lagoon where it can be pumped and  
10 disposed of properly off site until there is enough daily flow to commence  
11 operation of the plant.  
12

13 **Q. What is the name of the company that will own and operate the wastewater**  
14 **treatment plant and provide sewerage service to the users at Kiawah River?**

15  
16 A. Kiawah River Utility Company (“KRUC”). It is a South Carolina corporation. It  
17 has a small office at the headquarters for Kiawah River at 2501 Mullet Hall Rd,  
18 Johns Island, SC 29455.  
19

20 **Q. Who is the owner of KRUC?**

21 A. KRUC is wholly owned by Kiawah River Utility Holdings, LLC.  
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23 **Q. Who is the owner of Kiawah River Utility Holdings, LLC?**

1 A. Kiawah River Investment, LLC.

2

3 **Q. Have the wastewater treatment plant and other wastewater infrastructure**  
4 **been transferred to KRUC?**

5 A. They are in the process of being transferred and will in fact be transferred by the  
6 scheduled hearing on November 12, 2019.

7

8 **Q. Does KRUC intend to have its own employees?**

9 A. Not in the early years of the development. We made the decision for now to enter  
10 contacts with qualified persons who are extremely experienced in operating,  
11 maintaining, and managing a sewer utility company. We believe this will be more  
12 efficient, effective, and cost less.

13

14 **Q. Whom did KRUC select to operate the wastewater treatment plant and other**  
15 **sewer infrastructure and to oversee its maintenance and repair as well as**  
16 **assure its adherence to all the regulations of DHEC?**

17 A. We chose Michael Agin. He is a licensed Class A operator. We have entered a  
18 contract with his company, M. J. Agin & Associates, LLC, to perform all those  
19 services for KRUC. We intend to submit the contract with him for review and  
20 approval by the Commission at the same time it acts on our application to assign  
21 us the service area of Kiawah River and approve our proposed rates and charges.

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1 **Q. How did you derive the proposed tariff of rates and charges that KRUC is**  
2 **asking the Commission to approve?**

3 A. We have no prior experience in this area and hired Guastella Associates, LLC as a  
4 consultant to prepare all the financial analyses and other studies that are necessary  
5 to derive and support the proposed rates and charges. We provided extensive  
6 information to Guastella Associates about the specifics of the development and  
7 what we anticipated to be the course of its growth. We commented on its analyses  
8 and studies. We reviewed the final schedules and other materials that were  
9 generated by Guastella Associates that are part of our application to the  
10 Commission. John Guastella and Gary White will be providing the testimony  
11 substantiating the schedules and pro forms that were prepared by them.  
12

13 **Q. Who is going to manage KRUC?**

14 A. We do not have the qualifications in house. We considered and corresponded with  
15 three or four candidates to serve as the manager of the utility to handle all of its  
16 operations and functions – including but not limited to accounting, billing, and  
17 customer relations. In the end we selected Guastella Associates, LLC, because of  
18 its expertise, its work in South Carolina, its familiarity with the Commission and  
19 ORS, its thorough understanding for the accounting principles peculiar to utilities,  
20 and its cost to the utility. Guastella Associates is set up for billing and all the other  
21 day to day activities necessary to manage the utility.  
22

1 **Q. Did it concern you that Guastella Associates did not have a physical office in**  
2 **South Carolina and will not have an office at Kiawah River?**

3 A. No. They will be able to respond immediately by telephone or email. The  
4 accounting and billing will be available to us and ORS on line. We understand  
5 that Guastella Associates has successfully managed Daufuskie Island Utility  
6 Company without a formal in-state office. They have indicated a willingness to  
7 meet with us and customers at Kiawah River if the need arises. Specific  
8 complaints about the operation of the system or emergencies will be handled by  
9 Michael Agin who is available 24/7. Customers will have his mobile telephone  
10 number.  
11

12 **Q. Did KRUC enter a Management Contract with Guastella Associates?**

13 A. Yes, after extensive negotiations. We sought significant changes to the contract  
14 that Guastella Associates initially presented. We were able to reduce the monthly  
15 fee, reduce the term, implement favorable insurance provisions, and accomplish  
16 other changes that were both suitable and beneficial to the utility. We intend to  
17 seek approval of this contract too when the Commission acts on our application.  
18

19 **Q. At the suggestion of ORS did KRUC enter another contract?**

20 A. Yes, as stated in our application, the revenues of the utility will not be sufficient to  
21 pay for its operation for several years to come because of the small number of  
22 customers that will gradually increase as the development occurs. The only way  
23 the rates can be reasonable and the utility to be financially viable is if the

1 operating deficits are funded by the developer or KRUC's parent entity. ORS  
2 suggested that KRUC enter a formal contract that includes a written commitment  
3 by the developer or parent entity to fund any operating deficits until such time as  
4 revenues increase sufficiently or the utility is able to attract capital. In late July of  
5 this year, KRUC, KRUH, and KRI entered into a Memorandum of Understanding  
6 to this effect that included a reciprocal commitment by KRUC to provide  
7 wastewater services in a timely manner in compliance with all laws and  
8 regulations with sufficient capacity to serve the increasing need for such services  
9 at Kiawah River.

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11 **Q. After the Memorandum of Understanding was executed, did you determine**  
12 **there was a mistake in any of its terms?**

13 A. Yes. There was a mistake in the description of the accounting treatment of the  
14 advances that are to be made to cover the operating deficits of the utility. As a  
15 result, we are in the process of executing an Amended Memorandum of  
16 Understanding that corrects the error.

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18 **Q. Will KRUC file a request that the Commission approve that contract at the**  
19 **same time that it acts on the pending application for designation of service**  
20 **area and approval of rates and charges?**

21 A. Yes. We intend to file an application in the next couple of weeks requesting that  
22 the Commission approve all three contracts – to operate the utility, to manage the  
23 utility, and to subsidize operating deficits.

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2 **Q. Have copies of these contacts been provided to ORS?**

3 A. Yes, we provided them as part of our responses to its information requests.

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5 **Q. Does this conclude your testimony?**

6 A. Yes.

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